

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**INSPECTOR GENERAL, DOD, OVERSIGHT  
OF THE ARMY AUDIT AGENCY AUDIT  
OF THE ARMY FINANCIAL STATEMENTS  
FOR FISCAL YEARS 1996 AND 1995**

Report No. 97-123

April 10, 1997

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**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
**400 ARMY NAVY DRIVE**  
**ARLINGTON, VIRGINIA 22202-2884**



April 10, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)**  
**AND CHIEF FINANCIAL OFFICER**  
**DIRECTOR, DEFENSE FINANCE AND ACCOUNTING**  
**SERVICE**

**SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Army Audit**  
**Agency Audit of the Army Financial Statements for Fiscal Years 1996**  
**and 1995 (Report No. 97-123)**

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Army Audit Agency (AAA) disclaimer of opinion on the Army financial statements for FYs 1996 and 1995, along with the AAA Auditor's Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995." An audit of the Army financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Since this report contains no recommendations, comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9145 (DSN 664-9145; e-mail [rbird@DODIG.OSD.MIL](mailto:rbird@DODIG.OSD.MIL)); or Mr. John J. Vietor, Audit Project Manager, at (317) 542-3855 (DSN 699-3855; e-mail [jvietor@DODIG.OSD.MIL](mailto:jvietor@DODIG.OSD.MIL)). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

**Office of the Inspector General, Department of Defense**

**Report No. 97-123**

**April 10, 1997**

(Project No. 6FI-2020.01)

**Inspector General, DoD, Oversight of the Army  
Audit Agency Audit of the Army Financial Statements  
for Fiscal Years 1996 and 1995**

**Executive Summary**

**Introduction.** The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires an audit of the Army financial statements. We delegated the audit of the FY 1996 Army financial statements to the Army Audit Agency on May 17, 1996. This report provides our endorsement of the Army Audit Agency disclaimer of opinion on the Army financial statements for FYs 1996 and 1995, along with the Army Audit Agency Auditor's Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995."

**Audit Objective.** The audit objective was to determine the accuracy and completeness of the audit of the Army financial statements for FYs 1996 and 1995 conducted by the Army Audit Agency. See Appendix C for a discussion of the audit process.

**Audit Results.** The Army Audit Agency Auditor's Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995," February 21, 1997, stated that the Army Audit Agency was unable to express an opinion on the Army financial statements for FYs 1996 and 1995. We concur with the Army Audit Agency disclaimer of opinion; our endorsement of that disclaimer is Appendix A. The Army Audit Agency report is Appendix B.

**Summary of Recommendations and Management Comments.** This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3. Accordingly, comments are not required.

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# Appendix A. IG, DoD, Endorsement Memorandum



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



March 1, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND  
CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FYs 1996 and 1995 Army Principal Financial Statements (Project No. 6FI-2020)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. On May 17, 1996, we delegated to the Army Audit Agency (AAA) the audit of the FYs 1996 and 1995 Army principal financial statements. Summarized below are the AAA opinion letter on the FYs 1996 and 1995 Army principal financial statements and the results of our review of the audit conducted by AAA. We endorse the disclaimer of opinion expressed by AAA (see the Enclosure) in its audit of the FYs 1996 and 1995 Army principal financial statements. \*

**Endorsement of the Disclaimer of Opinion.** The AAA disclaimer of opinion on the FYs 1996 and 1995 Army principal financial statements, dated February 21, 1997, stated that AAA was unable to express an opinion on those financial statements. We concur with the AAA disclaimer of opinion.

The primary reason AAA was unable to express an opinion was that the accounting systems, and other systems that interface with the accounting systems, were not designed for financial statement reporting, and therefore cannot produce reliable and auditable financial statement data. Other reasons for the AAA disclaimer of opinion were:

- o The processes used to collect, classify, and value fixed asset data (translating data on quantities of assets into reported dollar values) did not produce reliable and auditable amounts in the Statement of Financial Position.
- o Systems, procedural, and policy problems prevented the auditors from attesting to the reported values for accounts payable, and also for contingent and other liabilities.
- o Accounting systems did not produce subsidiary ledgers showing the detailed transactions that made up the summary amounts reported for expenses in the Army's financial statements.

Inadequate accounting systems resulted in disclaimers of opinion for the FYs 1991 through 1995 Army principal financial statements. Inadequate accounting systems continued to exist in relation to the FY 1996 financial statements.

**Internal Controls and Compliance With Laws and Regulations.** Internal controls did not fully ensure that the Army's financial statements contained no material misstatements. As a result, the risk of material financial misstatements was high. The Army and the Defense Finance and Accounting Service have recognized many of the financial reporting weaknesses and reported

\*The enclosure was omitted from Appendix A and included in Appendix B.

## Appendix A. IG, DoD, Endorsement Memorandum

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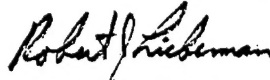
them in their FY 1996 annual statements of assurance on management controls. AAA audit work did not disclose any instances of unreported failures to comply with laws and regulations for the Army's financial statements.

**Review of Army Audit Agency Work.** To fulfill our responsibilities for determining the accuracy and completeness of the independent audit conducted by the AAA, we:

- o reviewed the AAA approach and planning of the audit, and
- o monitored the progress of the audit at key points.

We also performed other procedures deemed necessary to determine the fairness and accuracy of the audit approach and conclusions.

We conducted our review of the AAA audit of the FYs 1996 and 1995 Army principal financial statements from May 17, 1996, through February 21, 1997, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AAA disclaimer of opinion on the Army principal financial statements and the related AAA evaluation of internal controls and compliance with laws and regulations.



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Enclosure

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\*The enclosure was omitted from Appendix A and included in Appendix B.

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**Appendix B. AAA Report, "Army's Principal  
Financial Statements for Fiscal Years 1996  
and 1995"**

**Army's Principal  
Financial Statements  
for Fiscal Years  
1996 and 1995**

**Auditor's Report**

**21 February 1997  
Audit Report: AA 97-133**



**U.S. Army Audit Agency**





**Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"**

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DEPARTMENT OF THE ARMY  
OFFICE OF THE AUDITOR GENERAL  
3101 PARK CENTER DRIVE  
ALEXANDRIA, VA 22302-1596



21 February 1997

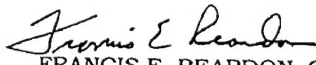
Secretary of the Army

This is the auditor's report which summarizes the results of our efforts to audit the Army's Principal Financial Statements for the fiscal years ended 30 September 1996 and 1995. We performed our work pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576) as amended.

We were unable to express an opinion on the financial statements primarily because of inadequate accounting systems and incomplete or unauditible supporting records. We were unable to apply other auditing procedures in these areas to satisfy ourselves as to the fairness of the data presented.

Brief discussions of our results and conclusions are in the main part of this report. We will present more detailed discussions in the supporting audit reports to be published separately (see Annex C).

I appreciate the courtesies and cooperation extended to us during the audit.

  
FRANCIS E. REARDON, CPA  
The Auditor General

**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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**AUDITOR'S REPORT**

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"



DEPARTMENT OF THE ARMY  
OFFICE OF THE AUDITOR GENERAL  
3101 PARK CENTER DRIVE  
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### Secretary of the Army

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Army prepared the accompanying Principal Financial Statements for the fiscal years ended 30 September 1996 and 1995. As delegated by, and in coordination with, the Inspector General, DOD, we were engaged to audit the statements, including an evaluation of related internal controls and compliance with laws and regulations.

We were unable to express an opinion on the Army's Principal Financial Statements for the fiscal years ended 30 September 1996 and 1995. The reasons for our disclaimer were inadequate accounting systems, insufficient audit trails, and unreliable amounts for several types of assets, liabilities, and expenses. Procedural and compliance problems also contributed to the lack of reliable amounts in the Army's financial statements. In this report, we explain our disclaimer reasons plus some other reporting problems. We also cite areas where the Army and the Defense Finance and Accounting Service are making progress.

Internal controls weren't fully effective to ensure there were no material misstatements in the financial statements. As a result, the risk of material financial misstatements is high. The Army and the Defense Accounting Service have recognized many of the associated financial reporting weaknesses and reported them in their FY 96 annual assurance statements. Our audit efforts didn't disclose any instances of unreported failures to comply with laws and regulations related to the Army's financial statements. We will present details on these matters in our separate report on internal controls and compliance with laws and regulations.

Financial data in the Overview and the Supplemental Financial and Management Information sections of the Army's FY 96 Annual Financial Report was derived from the same sources as the financial statements and, therefore, may not be reliable.

To the extent possible, we performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 93-06 (Audit Requirements for Federal Financial Statements). However, as noted in the body of our report, there were significant limitations to the scope of our work.

## **Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"**

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### **Reasons for Disclaimer**

Our audit work showed that the Army continues to experience major financial reporting problems which precluded us from rendering an opinion on its financial statements. Specific reasons for our disclaimer were inadequate accounting systems, insufficient audit trails, and unreliable amounts for several types of assets, liabilities, and expenses. These problems are being worked on, but complete solutions aren't likely for several years to come.

The Army reported \$201 billion in assets, \$25.3 billion in liabilities, and \$64.7 billion in expenses in its financial statements for FY 96. Building on prior year audit results, we audited major portions of the reported assets and liabilities. Accounting systems problems precluded us from auditing reported expenses. Accounting systems and procedural problems also precluded us from attesting to the reported values for much of the Army's assets and liabilities. The following paragraphs briefly summarize our results. Complete details on these subjects, including specific recommendations, are in the supporting audit reports to be issued separately.

#### **ACCOUNTING SYSTEMS**

The primary reason that we couldn't render an opinion on the Army's financial statements is that the accounting systems, and the systems which interface with the accounting systems (such as the Army's logistics and contracting systems), weren't designed for financial statement-type reporting—and, therefore, can't produce reliable and auditable financial statement numbers. The Defense Accounting Service owns and operates most of the systems used to account for the Army's resources, and it's working on a new accounting system intended to resolve this problem. However, the new system probably won't be fully fielded until after the turn of the century.

#### **ASSETS**

As in prior years, we found that the reported total for fund balance with Treasury (\$31.2 billion for FY 96) was reliable. However, the total included an abnormal (\$-134 million) fund balance with Treasury for non-entity assets. We also found that the reported quantities of fixed assets were generally accurate. However, the processes used to collect, classify, and value fixed asset data (the processes used to translate asset quantity data into reported dollar values) didn't produce reliable and

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

auditable numbers in the Statement of Financial Position. We describe the most significant problems we found in the following paragraphs.

**Inventory, Net.** The reported value for inventory, net (\$37.7 billion for FY 96) was misstated by an unknown but probably material amount because the assets weren't properly valued—holding gains and losses weren't recognized, asset prices weren't current, and asset stockage categories were misstated. We also noted that this line consisted mostly of assets which don't appear to meet the definition of inventory. Instead, these assets probably should be reported as property, plant and equipment or separately as war reserves. This is a DOD-wide policy issue and will be addressed by the Inspector General, DOD.

**Property, Plant and Equipment, Net.** We weren't able to attest to the reported value for property, plant and equipment, net (\$124.9 billion for FY 96) because the following sub-elements were misstated by unknown amounts:

- The reported value for military equipment (\$80.9 billion) was misstated by an unknown but probably material amount. Physical accountability of equipment at using units appeared adequate, but the prices used to value this equipment weren't current. Furthermore, some units' equipment reports weren't accurate or complete, and most reports weren't based on DOD-specified asset reporting thresholds. The reported value for military equipment was also misstated because the contractor reports—used to account for equipment held by contractors—weren't complete or accurate.
- The reported value (\$27.5 billion) for real property (land; and structures, facilities, and leasehold improvements) was misstated by an unknown but probably material amount because Army and DOD reporting guidance wasn't clear and wasn't consistently implemented. Furthermore, real property assets were understated by an unknown but probably material amount because the Army's financial interest in State National Guard facilities wasn't recorded as an asset.
- The reported value for construction in progress (\$9.6 billion) was misstated by an unknown but probably material amount because (i) the portion pertaining to government-furnished materiel (\$3.3 billion) was based on contractor reports which weren't accurate or complete, and (ii) the amount reported for Army National Guard construction in progress (\$1.7 billion) included an unknown amount for completed projects.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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**Other Entity Assets.** The reported value for other entity assets (\$5.5 billion for FY 96) was misstated by an unknown but probably material amount because it was derived from contractor reports which weren't complete or accurate, and included large amounts for equipment items which didn't belong to the Army or were otherwise already accounted for.

### LIABILITIES

By recognizing liabilities in its statements for FY 96 that it had previously only disclosed in footnotes, the Army made significant progress reporting its actual liabilities. However, systems, procedural, and policy problems prevented us from attesting to the reported values for accounts payable, and also for contingent and other liabilities. We anticipate additional progress in the near term on contingent and other liabilities, but the problems with accounts payable are likely to take longer to resolve. Here are the major problems.

**Accounts Payable.** The reported balances of accounts payable covered by budgetary resources for Federal and non-Federal entities (\$3.9 billion for FY 96) weren't reliable, and existing accounting systems and procedures precluded the determination of reliable values for these accounts. Accounts payable frequently aren't recorded (i) when goods or services are received, (ii) for year-end unpaid invoices on Defense-administered Army contracts, and (iii) for progress payment holdbacks. Furthermore, the Defense Accounting Service makes corporate-level adjustments to the Army's accounts payable which, because of procedural problems, distort rather than improve the reported numbers.

**Other Liabilities.** Although the Army recognized \$15 billion in other liabilities not previously recognized—a major improvement over prior years—not all reportable liabilities have been identified and properly valued. Consequently, we can't attest to the reliability of the contingent and other liabilities presented in the Army's statements.

### EXPENSES

Our prior audit results showed that the accounting systems don't produce transaction sets (subsidiary ledgers) showing the detailed transactions that make up the summary numbers reported for expenses in the Army's financial statements. Therefore, we didn't attempt to audit the expenses reported in the Army's statements for FY 96. We have recommended that changes be made to the Army's accounting systems to remedy this problem. The Defense Accounting Service (the owner and operator of the Army's primary accounting systems) acknowledged the

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

deficiency, but it's working on a new accounting system to replace those currently in use, and has decided to invest all of its available systems resources in the new system. Consequently, the existing accounting systems won't be changed, and this problem won't be resolved until the new accounting system is fielded.

### Other Reporting Problems

Our audit work disclosed other problems which don't preclude us from rendering an audit opinion, but which must be resolved to ensure the affected data is properly presented in the Army's financial statements.

**Assets Under Capital Lease.** The Army's overseas real property holdings, totaling about \$5 billion for FY 96, were misclassified as assets under capital lease and should have been reported in the normal real property accounts. This property was reported as assets under capital lease based on guidance from the Under Secretary of Defense (Comptroller). In our opinion, this guidance runs counter to generally accepted accounting principles. Also, some of the Army's real property holdings in Europe, which were confiscated from the German Government after World War II, or funded by other governments, weren't properly reported.

**Natural Resources.** The Army's reported value for natural resources (\$1.7 billion in standing timber assets for FY 96) may be overstated. The reporting guidance for these assets isn't clear, and wasn't implemented consistently. Moreover, reported values include timber which can't be harvested.

**Operating Materials and Supplies.** Based on guidance from the Under Secretary of Defense (Comptroller), the Army expensed the inventories of repair parts owned by its combat divisions and separate brigades—but it's possible that these inventories should have been reported as assets. The inventories appear to meet the definition of operating materials and supplies, so expensing them may understate the Army's total assets (these units are authorized to stock parts inventories worth about \$800 million). This is a potential DOD-wide problem, and its resolution will be addressed by the Inspector General, DOD.

### Progress Areas

The Defense Accounting Service has the lead on the ongoing effort to develop the new accounting system intended to resolve many of the problems noted in this report. And, the Army has been actively working with the Defense Accounting Service on the accounting system



## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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development project. The Army has also taken steps to resolve the other financial reporting problems that it can fix by itself, and, as discussed in this section, we found that several of these problems were recently resolved.

Additionally, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) routinely holds Armywide video teleconferences in which financial problems are monitored and pursued. This office is also engaged in numerous partnering arrangements with other senior Army and DOD managers on functional and financial management improvement initiatives and problem-solving projects.

### FINANCIAL REPORTING INITIATIVES

We discuss some of the Army's most noteworthy financial reporting initiatives in the following paragraphs.

**Corps of Engineers Financial Management System.** In May 1996, after a joint, preliminary test at an Army installation, the Under Secretary of Defense (Comptroller) directed the Defense Accounting Service to proceed with efforts to adapt the U.S. Army Corps of Engineers Financial Management System for use as the General Fund accounting system for the Army and some other DOD entities. The basic system is being fielded to Corps entities, and appears capable of meeting the Chief Financial Officers Act's financial management and reporting requirements. Adapting the system to the General Fund will entail much work, but its apparent success in the Corps makes it a meaningful candidate for resolving the Army's General Fund accounting problems.

**Revaluing Unserviceables.** In prior years, the lack of a method for revaluing unserviceable, repairable assets was one of the reasons we disclaimed an opinion on the Army's statements. During the current reporting cycle, the Army agreed to a method for revaluing these unserviceables, and this disclaimer point was resolved.

**Real Property Integrated Process Team.** Recognizing the magnitude and cross-cutting nature of the problems in financially accounting for real property, the Army initiated the establishment of a DOD-wide Real Property Integrated Process Team. The Team's objectives include defining data elements needed in real property systems for financial reporting, recommending needed policy changes to DOD, and identifying the process for integrating the Defense Property Accountability System with the various real property management systems. The team has met several times since being formed in FY 96 and plans to hold future meetings at least twice a year until financial reporting problems are

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

resolved. The team's goal is to have real property data loaded into the Defense Property Accountability System by the end of FY 98.

**Asset Reporting.** In response to prior audit recommendations, the Army's logisticians have undertaken a number of actions to rectify military equipment reporting problems. These actions include the initiation of a contractor-assisted effort to reduce mismatches between unit property records and the Continuing Balance System-Expanded (the system used as the source of data for reporting equipment in use at tactical units), the establishment of an Integrated Process Team chartered to improve the accuracy of the records on in-transit equipment, and aggressive interactions with the Defense Accounting Service to fund and implement changes to logistics systems accounting applications so that they properly report Project Manager-owned assets, as well as unserviceable, obsolete and excess assets. These efforts, planned for completion in FY 97 through FY 99, should remedy many of the Army's asset reporting problems and enhance the reliability of the asset values reported in the Army's financial statements.

**Government-Furnished Property.** In recognition of the extent and complexity of the problems which hinder financial accountability for government-furnished property, the Assistant Secretary of the Army (Financial Management and Comptroller) has hired Coopers and Lybrand on a series of engagements designed to bring a commercial perspective to the problem, and help determine needed changes.

**Problem Disbursements.** The Army continued its efforts to reduce the amount of problem disbursements. As of 30 September 1996, the Army reported a negative unliquidated obligation balance of \$133 million—the lowest since it began keeping statistics in FY 94. However, the balance for unmatched disbursements was \$334 million higher than the yearend result for FY 95. Defense Accounting Service personnel attributed much of the increase to its ongoing consolidation of accounting offices and the resulting personnel turbulence.

**Army National Guard.** The Army National Guard has identified financial reporting improvement initiatives and recognized the need to review business practices and institute improvements. Some of the planned actions include developing a general ledger reporting process at the State Guard level, and reconciling data reported by State Guard units with consolidated data at the Defense Accounting Service. These initiatives, which the Guard hopes to complete before FY 98, should help resolve some of the Guard's previously discussed reporting problems.

**Command-Initiated Adjustments.** The Army prepared several financial statement adjustments on its own this year to improve the accuracy of

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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the FY 96 financial statements. These adjustments were similar to those that we recommended in prior years, and this initiative signifies an enhanced recognition of the need to take ownership of the financial reporting process.

### INTEGRATING FUNCTIONAL AND FINANCIAL MANAGEMENT

Here are some of the Army's more significant initiatives aimed at integrating functional and financial management.

**Military Personnel and Payroll.** The Army and the Defense Accounting Service have developed automated interfaces between the Army's military personnel and pay systems to increase data accuracy and minimize improper payments. The Army has also initiated a process to reduce soldiers' out-of-service debts (debts not collected or settled before soldiers are separated from the Army).

**Travel Advances.** The Army is emphasizing the collection of outstanding travel advances and the use of government travel cards to reduce the need for advances. Reported travel advances as of 30 September 1996 totaled about \$73 million, a decrease of about 19 percent compared to the total as of 30 September 1995. Also, the Army eliminated retained advances.

**Purchase Card.** The Army has increased its use of the International Merchants Purchase Authorization Card (IMPAC) to make micro purchases (generally, purchases under \$2,500). In a recent audit report, we projected that the Army saved the equivalent of \$155 million in workyears in FY 96 by using credit cards instead of purchase orders to execute its micro purchase transactions. An Army team developed specific business practice changes to streamline the purchase card processes which the Army approved in August 1996. These changes should further improve the program's efficiency.

**Velocity Management.** Velocity Management is a concept, implemented by a coalition of senior Army leaders, that focuses on improving the performance of logistics processes. The goals for this effort are to speed up the supply process, reduce inventories, improve the linkage between supply and financial management systems, and provide managers with timely and accurate decision-making information.

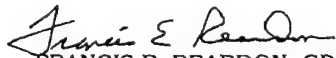
### Outlook

The initiatives discussed above are precisely the type of efforts needed to improve financial reporting and integrate functional and financial

**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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management, as intended by the Chief Financial Officers Act. They give evidence both to the Army's commitment to the act and its progress toward successful implementation. Thus, although many problems remain, and full solutions are still several years distant, the outlook is positive.

  
FRANCIS E. REARDON, CPA  
The Auditor General

21 February 1997

**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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**ANNEXES**

**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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**ANNEX A**

**AUDIT SCOPE AND METHODOLOGY**

Army management, with support provided by the Defense Finance and Accounting Service, is responsible for:

- Preparing the annual financial statements in conformity with applicable accounting principles.
- Establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met.
- Complying with applicable laws and regulations.

We were responsible for auditing the financial statements and evaluating related internal controls and compliance with laws and regulations. In carrying out these responsibilities, we:

- Evaluated and, as necessary, tested relevant internal controls encompassing:
  - Fund balance with Treasury.
  - Inventory, net.
  - Wholesale asset quantities.
  - Wholesale asset values.
  - Government-furnished property.
  - Real property.
  - Contingent and other liabilities.
  - Accounts payable.
  - Progress payments.
  - National Guard reporting.
  - Financial statement preparation procedures.
- Conducted followup reviews on previous recommendations addressing:
  - Accounting systems.
  - Problem disbursements.
  - Travel advances.
  - Payroll.
  - Retail equipment.
- Tested compliance with selected laws and regulations.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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### ANNEX A

- Assessed data contained in the Overview section of the Annual Financial Report for consistency with data reported in the financial statements.

We didn't conduct audit work on programs that are classified for national security.

To the extent possible, we performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 93-06 (Audit Requirements for Federal Financial Statements). However, as noted in the body of our report, there were significant limitations to the scope of our work.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

## PRINCIPAL STATEMENTS

The Army's FY 96 Principal Statements are presented in the format prescribed by the Office of Management and Budget (OMB) and Office of the Under Secretary of (Comptroller/Chief Financial Officer). statements present the overall financial and operating results of the Army for the years ending September 30, 1996 and

The following statements are included as Principal Statements.

- Statement of Financial Position
- Statement of Operations (and Changes in Net Position)
- Statement of Cash Flow

The principal statements have been prepared report the financial position and results operations of the entity, pursuant to the requirements of the Chief Financial Officers of 1990 as amended by the Management Reform Act. The footnotes be considered an integral part of the statements.

#### Limitations of the Financial Statements:

While the statements have been prepared the books and records of the entity accordance with the format prescribed by and DoD, the statements are different from financial reports used to monitor and budgetary resources, which are prepared the same books and records. The should be read with the realization that they for a component of a sovereign entity, liabilities not covered by budgetary cannot be liquidated without the enactment an appropriation, and that the payment of liabilities other than for contracts can abrogated by the sovereign

Prior year balances have been restated in cases. Additional information is contained Note 1 (U).



## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

Department of the Army  
Statement of Financial Position  
As of September 30, 1996  
(Thousands)

ASSETS	1996	1995
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 1G and 2)	\$31,343,151	\$29,660,945
(2) Investments, Net (Note 1I, and 4)	1,068	1,003
(3) Accounts Receivable, Net (Note 1I and 5)	953,735	977,322
(4) Interest Receivable	0	0
(5) Advances and Prepayments	4,304	89,800
(6) Other Federal (Intragovernmental)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments	0	0
(2) Accounts Receivable, Net (Note 1I and 5)	260,244	179,552
(3) Credit Program Receivables/ Related		
Foreclosed Property, Net	0	0
(4) Interest Receivable, Net	273	0
(5) Advances and Prepayments	424,246	920,048
(6) Other Non-Federal (Governmental)	0	0
c. Cash and Other Monetary Assets (Note 1G and 3)	19,802	270,250
d. Inventory, Net (Note 1K and 8)	37,669,779	33,160,758
e. Work in Process	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 1I)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and		
Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 1M and 15)	124,867,674	155,943,247
l. Other Entity Assets	5,476,723	153,000
m. Total Entity Assets	<u>\$201,020,999</u>	<u>\$221,355,925</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 1G and 2)	(\$134,337)	\$354,656
(2) Accounts Receivable, Net (Note 1I and 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

**Department of the Army  
Statement of Financial Position  
As of September 30, 1996  
(Thousands)**

ASSETS, Continued	1996	1995
<b>2. Non-Entity Assets:</b>		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 11 and 5)	\$6,478	\$7,549
(2) Interest Receivable, Net	6,058	1,348
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 1G and 3)	143,252	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$21,451</u>	<u>\$363,553</u>
<b>3. Total Assets</b>	<u><u>\$201,042,450</u></u>	<u><u>\$221,719,478</u></u>
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$2,069,074	\$1,070,455
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	725,319	1,421,524
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable (Note 1W)	1,789,207	1,307,626
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	1,957,061	1,295,363
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	327,984	330,338
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	218,865	190,720
c. Total Liabilities Covered by Budgetary Resources:	<u>\$7,087,510</u>	<u>\$5,616,026</u>

The accompanying notes are an integral part of these statements.

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Department of the Army  
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LIABILITIES, Continued	1996	1995
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	769,119	783,062
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	216
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,313,935	1,352,475
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	16,138,876	2,736,114
c. Total Liabilities Not Covered by Budgetary Resources	<u>\$18,221,930</u>	<u>\$4,871,867</u>
6. Total Liabilities	<u>\$25,309,440</u>	<u>\$10,487,893</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$27,461,855	\$27,966,112
b. Invested Capital	168,160,756	183,559,323
c. Cumulative Results of Operations	(1,667,671)	4,578,017
d. Other	0	0
e. Future Funding Requirements	(18,221,930)	(4,871,867)
f. Total Net Position	<u>\$175,733,010</u>	<u>\$211,231,585</u>
8. Total Liabilities and Net Position	<u>\$201,042,450</u>	<u>\$221,719,478</u>

The accompanying notes are an integral part of these statements.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

**Department of the Army  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1996  
(Thousands)**

	<u>1996</u>	<u>1995</u>
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$55,643,717	\$53,273,311
2. Revenues from Sales of Goods and Services		
a. To the Public	627,185	495,222
b. Intragovernmental	5,552,692	5,466,516
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	929,604	912,178
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(432,977)	(321,412)
8. <b>Total Revenues and Financing Sources</b>	<u>\$62,320,221</u>	<u>\$59,825,815</u>
<b>EXPENSES</b>		
9. Program or Operating Expenses (Note 23)	\$57,789,003	\$54,475,978
10. Cost of Goods Sold (Note 24)		
a. To the Public	627,185	495,222
b. Intragovernmental	5,552,692	5,466,517
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	23,252	37,000
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	1,576	1,342
14. Other Expenses (Note 25)	735,136	357,780
15. <b>Total Expenses</b>	<u>\$64,728,844</u>	<u>\$60,833,839</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$2,408,623)	(\$1,008,024)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. <b>Excess (Shortage) of Revenues and     Financing Sources Over Total Expenses</b>	<u>(\$2,408,623)</u>	<u>(\$1,008,024)</u>

The accompanying notes are an integral part of these statements.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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Department of the Army  
Statement of Operations and Changes in Net Position  
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(Thousands)

	<u>1996</u>	<u>1995</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$211,231,585	\$225,808,608
20. Adjustments (Note 27)	(13,685,466)	2,545
21. Net Position, Beginning Balance, as Restated	<u>\$197,546,119</u>	<u>\$225,811,153</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(2,408,623)	(1,008,024)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(19,404,486)</u>	<u>(13,571,544)</u>
24. Net Position, Ending Balance	<u><u>\$175,733,010</u></u>	<u><u>\$211,231,585</u></u>

The accompanying notes are an integral part of these statements.

ANNEX B

*DEPARTMENT OF THE  
ARMY*

*NOTES TO THE  
PRINCIPAL FINANCIAL  
STATEMENTS*

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

##### Note 1. Summary of Significant Accounting Policies:

###### **A. Basis of Presentation:**

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation. They have been prepared from the books and records of the Army in accordance with DoD guidance on the form and content of financial statements as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Consequently, these statements are different from the periodic accounting reports, also prepared by the Army pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

The Army's financial statements are prepared from a consolidation of accounting information reported from multiple field level accounting systems as well as departmental level data input by the Defense Finance and Accounting Service (DFAS) - Indianapolis Center. This consolidated accounting data is maintained in the Headquarters Accounting and Reporting System (HQARS) departmental general ledger located at DFAS-IN.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Department level budget execution reports are prepared from installation budget execution reports that are certified for accuracy and completeness by installation commanders. Other methods, to include feeder reports, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports don't contain the particular information - for example, "Government Furnished Property."

The requirements for Statements of Cash Flows and Budget and Actual Expenses have been waived by the Office of Management and Budget for Department of Defense agencies and, accordingly, are not included.

###### **B. Reporting Entity:**

The Army's primary mission is to train and equip forces for the conduct of prompt and sustained combat operations on land. Fiscal year 1996 represents the 6th year that the Department of the Army has prepared, and had audited, financial statements as required by the CFO Act and the Government Management Reform Act. The accompanying audited financial statements account for all funds for which the Army is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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The accounts used to prepare the principal statements are classified as entity/ non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

Designators with X, F, and R indicate availability for an indefinite period of time. Appropriations with a designator "\*" are for a specific period of time.

#### Entity Accounts:

##### **Revolving Funds**

21X4528 - Working Capital Fund, Army Conventional Ammunition

##### **Trust Funds**

21X8063 - Bequest of MG Fred C. Ainsworth, Library, Walter Reed Army Medical Center

21X8927 - General Gift Fund

##### **General Funds**

21\*7020 - Military Construction, Family Housing  
21\*7025 - Operation & Maintenance, Family Housing  
21\*1705 - National Board for the Promotion of Rifle Practice, Army  
21X1805 - Cemeterial Expenses, Army  
21\*2010 - Military Personnel, Army  
21\*2020 - Operations & Maintenance, Army  
21\*2031 - Aircraft Procurement, Army  
21\*2032 - Missile Procurement, Army  
21\*2033 - Procurement of Weapons and Tracked Combat Vehicles, Army  
21\*2034 - Procurement of Ammunition, Army  
21\*2035 - Other Procurement, Army  
21\*2040 - Research, Development, Test & Evaluation, Army  
21\*2050 - Military Construction, Army  
21\*2060 - National Guard Personnel, Army  
21\*2065 - Operations & Maintenance, Army National Guard  
21\*2070 - Reserve Personnel, Army  
21\*2080 - Operation & Maintenance, Army Reserve  
21\*2085 - Military Construction, Army National Guard  
21\*2086 - Military Construction, Army Reserve

##### **Special Funds**

21X5095 - Wildlife Conservation, etc., Military Reservations, Army  
21X5098 - Restoration, Rocky Mountain Arsenal  
21X5194 - DoD 50th Anniversary of World War II Commemoration Account  
21X5285 - Forest and Wildlife Conservation, Military Reservations  
21X5286 - National Science Center, Army



## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 1B Continued

##### Non-Entity Accounts:

##### Deposit Funds

21X6001 - Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property-Army  
21X6002 - Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Army  
21X6010 - Army Member Savings Deposit-Desert Shield/Desert Storm Savings Program  
21X6031 - Effects of Mentally Incompetent Soldiers - United States Army  
  
21X6050 - Employees' Payroll Allotment Account, United States Savings Bonds  
21\*6060 - Estates of Deceased Soldiers, Regular Army  
21X6075 - Withheld Allotment of Compensation for Payment of Employees Organization Dues  
21X6083 - Withheld Allotment of Compensation for Charitable Contributions  
21X6105 - Withheld Employee Contributions, State or Territorial Retirement  
21X6108 - Employer Contributions, State or Territorial Retirement  
21X6112 - Withheld Employee Contributions, State or Territorial Disability Benefits  
21X6113 - Withheld Employee Contributions, State or Territorial Death Benefits  
21X6129 - Foreign Taxes Withheld  
21X6131 - Employee and Employer Contributions, Private Insurance Plans, Dept of the Army  
21X6134 - Amounts Withheld for Civilian Pay Allotments  
21X6208 - Amounts Withheld for Group Life Insurance, National Guard Members  
21X6275 - Withheld Income Taxes (State, County, City)  
21X6434 - Servicemen's Group Life Insurance Funds, Suspense, Dept of the Army  
21\*6763 - Gains and Deficiencies on Exchange Transactions-Army  
21X6875 - Budget Clearing Account (Misc.)  
21X6999 - Accounts Payable, Check Issue Underdrafts

##### Special Funds (Receipt Accounts)

21R0891 - Miscellaneous Fees for Regulatory and Judicial Services not Otherwise Classified  
21R1020 - Fines, Penalties, and Forfeitures, Economic Stabilization Laws  
21R1030 - Fines, Penalties, and Forfeitures, Immigration and Labor Laws  
21R1060 - Forfeitures of Unclaimed Money and Property  
21R1099 - Miscellaneous Fines, Penalties and Forfeitures  
21R1125 - Recoveries Under Military Occupation  
21R1210 - Contributions to Conscience Fund  
21R1292 - Residue of Funds of Quasi-Governmental Organizations  
21R1299 - Gifts--To the United States not otherwise classified  
21R2462 - Deposits for Survivor Annuity Benefits  
21R3019 - Recoveries for Government Property Lost or Damaged, Not Otherwise Classified  
21R3041 - Recoveries Under Foreign Aid Programs -- Foreign Military Sales  
21R3102 - Recoveries From Federal Agencies Resulting for Reductions in Civilian Salaries of Military Retirees  
21R3200 - Collections of Receivables from Canceled Accounts

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 1B Continued

21R3210 - General Fund Miscellaneous Income and Recoveries not Otherwise Classified  
21R3220 - General Fund Proprietorship Receipts  
21R5095 - Sale of Hunting and Fishing Permits, Military Reservations  
21R5098 - Restoration, Rocky Mountain Arsenal, Army-Reimbursements from Private Industry  
21R5286 - National Science Center - Facilities  
21R5194 - Royalties for Use of DoD-Military Insignia and Trademarks  
21R8063 - Bequest of MG Fred Ainsworth to Walter Reed Army Medical Center  
21R8927 - Trust Fund Receipt Accounts for Department of the Army General Gift Fund

#### Special Funds

21F0109 - Federal Tax withheld from payments to nonresident aliens  
21F3845 - Proceeds of Sales, Personal Property  
21F3875 - Budget Clearing Account (Misc.)  
21F3878 - Budget Clearing Account (Chargebacks)  
21F3879 - Undistributed & Letter of Credit Differences (Suspense)  
21F3880 - Unavailable Check Cancellations  
21F3885 - Undistributed Intra-government Payments  
21F3886 - Federal Employee Retirement System (FERS) - Thrift Savings Plan Account

#### C. Budgets and Budgetary Accounting:

The Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for directing the Army's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to installations responsible for accomplishing the diverse missions for which the Army is responsible. As missions are performed, installations report obligations and disbursements against the applicable appropriations.

The Army's appropriations are divided into the general, revolving, trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the Army's missions.

General funds contain the bulk of Congressional appropriations, including personnel, operations, research and development, investment, and construction accounts.

The Conventional Ammunition Working Capital Fund, a revolving fund, accounts for the procurement, production, storage, distribution, maintenance, and demilitarization of conventional ammunition for all services.

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**Trust funds** are used to record the receipt of funds held in trust for the government. **Special funds** are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. **Deposit funds** generally are used to hold assets that are awaiting legal determination or for which the Army acts as agent or custodian. These accounts may also be used for unidentified remittances.

#### D. Basis of Accounting:

Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability has been incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts which facilitate Army's compliance in meeting both legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated.

#### E. Revenues and Other Financing Sources:

The Army receives the majority of funding required to support its programs and missions through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account.

Appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the Army from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process. The Conventional Ammunition Working Capital Fund recognizes revenues at the point of delivery.

Other revenues and financing sources include donated revenue and inventory and other gains. Donations to the Army are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset account. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, for the Army's general funds, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the consolidated statement of financial position.

#### F. Accounting for Intragovernmental Activities:

The Army, as an agency of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. However, it should be noted that these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency were a stand alone entity.

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### ANNEX B

The Army's proportionate share of public debt and related expenses of the federal government are not included in these financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies.

The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

The Army's permanent civilian employees and military personnel are covered under the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS) and the Military Pay Retirement System (MRS) plans.

*CSRS* - Army makes matching contributions equal to 7 percent of civilian pay.

*FERS* - Army contributes to FERS, Social Security (SS) and Thrift Savings Plan for civilian employees hired after December 31, 1983, or CSRS employees that elected to be covered under FERS.

*MRS* - Army contributes to the Military Pay Retirement Fund for Active Component and Reserve/National Guard members.

The Army also contributes to the FERS Thrift Savings Plan on behalf of its participating employees. The following contributions listed below were made to the retirement plans and FERS Thrift Savings Plan (TSP).

#### Retirement Contributions (Thousands)

	FY 96	FY 95
<b>CSRS</b>	\$278,700.0	\$295,718.0
<b>FERS</b>	370,300.0	351,539.7
<b>MRS</b>	4,049,600.0	4,430,300.0
<b>SS</b>	338,600.0	326,496.0
<b>Total</b>	<u>\$5,037,200.0</u>	<u>\$5,404,053.7</u>
<b>TSP</b>	<u>\$120,600.0</u>	<u>\$110,322.0</u>

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The Army funds a portion of the pension benefits under these retirement plans. No amounts are reported as assets or liabilities in the financial statements because the funds are maintained and reported by the Office of Personnel Management for CSRS and FERS; and DoD for MRS. Overseas commands obligate mission funds to pay separation and severance pay for Foreign Nationals in accordance with the Status of Forces Agreements.

#### G. Funds with the U.S. Treasury and Cash:

The Army's funding resources are maintained in Treasury receipt and expenditure accounts. The account balance with Treasury represents the aggregate of all Army appropriations. The Army is an agent for the Department of the Treasury for cash on hand.

Fund Balance With Treasury is adjusted for the amount of undistributed disbursements and collections reported in the departmental expenditure system. A corresponding adjustment is also processed to both accounts payable and accounts receivable respectively. These adjustments represent Army's in-float (undistributed) disbursements/collections for transactions that have been reported by a disbursing station but not recorded by the appropriate accountable station. See Note 2, "Fund Balance with Treasury."

Cash in the accounts of Army officials was reported in the financial statements as "Cash and Other Monetary Assets." Other cash reported included imprest fund and undeposited collections. Army disbursing officers also maintain small on hand balances of foreign currencies when acting as an agent for the Treasury Department in overseas locations. These foreign currency balances are reported at the U.S. Dollar equivalent using the exchange rate in effect on the last day of the reporting period. See Note 3, "Cash, Foreign Currency, and Other Monetary Assets."

#### H. Foreign Currency:

The Department conducts a significant portion of its operations overseas. Gains and losses from foreign currency fluctuations are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year.

#### I. Accounts Receivable, Net:

As presented in the Statement of Financial Position, accounts receivable includes accounts, claims, and refunds receivable from other entities. Allowances for uncollectible accounts are based on an analysis of collection experience by fund type. Accounts receivable are adjusted for the amount of undistributed collections reported in the departmental expenditure system. A corresponding adjustment is also processed to Fund Balance With Treasury. These transactions represent the Army's in-float (undistributed) collections for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. See Note 5, "Accounts Receivable, Net."

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#### J. Loans Receivable: Not applicable

#### K. Inventory, Net:

Currently, inventory is not recorded in the financial statements at the approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." Instead, inventory is valued at a standard price (sale price) which includes the purchase price plus cost recovery factors (commonly called surcharges) necessary to recover operating costs and anticipated inflation rate changes. Gains or losses that result from valuation changes for inventory are not recognized and reported in the Statement of Operations. Such gains or losses are, however, reflected in the inventory asset valuation and related invested capital account in the Statement of Financial Position. See Note 8, "Inventory, Net."

#### L. Investments in U.S. Government Securities:

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The reporting entity's intent is to hold investments to maturity. Consequently, no provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. See Note 4, "Investments, Net."

#### M. Property, Plant and Equipment, Net:

Property, Plant and Equipment (PP&E) represents the majority of total assets recorded on the Statement of Financial Position. Property accountability systems maintain the subsidiary records that support the general ledger balances as recorded in the financial accounting systems. Property book officers generally report PP&E end of period balances to the supporting accounting offices on a quarterly basis.

Current DoD financial capitalization policy requires that assets previously capitalized at lower thresholds - \$5,000 prior to FY 91; \$15,000 from FY 91 - FY 93; \$25,000 in 1994; \$50,000 in 1995 - remain in the PP&E accounts subsequent to the raising of capitalization thresholds. Most of the Army's property accountability systems can't comply with financial capitalization reporting requirements. Consequently, these systems are generally using the current \$100,000 capitalization threshold criteria for items having an estimated useful life of two or more years, regardless of when acquired.

Real property comprising land, buildings, and other facilities is valued using historical costs. The asset capitalization threshold was generally applied to the total costs (acquisition and capital improvements) of each facility supported by the Army's primary real property accountability system, the Integrated Facilities System. The other real property system generally reported asset costs in excess of \$25,000. Personal property (military equipment) is generally valued using latest acquisition costs or standard prices. Natural resources consist of the estimated market value of standing timber reserves.

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New buildings are capitalized upon acceptance by the installation. Gains or losses from transfer of assets or liabilities between agencies are not recognized, except when assets are transferred to the Base Realignment and Closure Account. This account is not allowed to accumulate gains or losses on disposal. Any gain or loss must be transferred back to the original/losing command.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Land and buildings also include amounts for real property in the hands of contractors. See Note 15, "Property, Plant and Equipment."

No gains or losses were recognized in the Statement of Operations for revaluation changes and/or the loss of equipment. However, the assets and related investment accounts do reflect both pricing and value changes based on a periodic update to the general ledger. Depreciation is not recorded for assets financed by general fund appropriations. Routine maintenance and repair costs are expensed when incurred.

Construction-in-progress (CIP) is updated based on costs incurred. In accordance with guidance from DoD Comptroller, CIP includes \$4.3 billion of work-in-process inventory and progress payments made to others for procurement and RDT&E construction in progress funded efforts which are not complete.

#### N. Prepaid and Deferred Charges:

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and reported as an asset on the Statement of Financial Position. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

#### O. Leases:

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. The Army owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments and the fact that the assets have already been funded and disbursements have already been made out of

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appropriated funds. Consequently, no capital lease liability is required for financial statement recognition.

#### P. Contingencies:

Most legal actions, other than contract claims, to which the department may be a named party are covered by the provisions of the federal tort claims act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Army's operations or financial position.

#### Q. Accrued Leave:

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

#### R. Equity:

Equity consists of invested capital, cumulative results of operation, and unexpended appropriations less unfunded liabilities. Invested capital, as presented in the Statement of Financial Position, represents the value of the Army's capital assets reported at average or actual cost. The portion of invested capital attributable to land and buildings represents their undepriciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are consumed in operations, or when average costs are decreased.

Cumulative results of operation represents the excess of revenues over expenses since fund inception, less refunds and returns to the U.S. Treasury for all funds other than the General fund. The excess of revenues over expenses for the General fund is reported in "Invested Capital." Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

#### S. Aircraft/Ship Crashes: Not applicable to Army



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#### T. Treaties for Use of Foreign Bases:

The Army has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Army continued use of these properties until the treaties expire. These assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Army. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the United States and the host country have been concluded, to determine the amount due the United States for such capital investments. Operating expenses for overseas bases are included in the Statement of Operations.

#### U. Comparative Data:

Army's financial statements will continue to reflect restatements and reclassifications due to the evolving nature of federal accounting standards and the development of new reporting financial systems. Restatement of lines 1.d. and 1.g. result from new DoD guidance relating to the reclassification of stockpile materials from the "Stockpile Materials, Net" line to the "Inventory, Net" line. Restatement of lines 4.b. through 5.b. result from audit recommendations relating to the recognition of accrued actuarial liabilities and other liabilities not covered by budgetary resources that were previously not recognized in FY 95. The restatement shown for lines 7.b. and 7.c. was the result of a change in DoD accounting policy/procedures requiring removal of the effects of activity in general fund appropriations from the "Cumulative Results of Operations" (CRO) line. Operating results relating to General Fund activity previously reported in CRO was reclassified as "Invested Capital." The remaining balances in CRO now represent only the cumulative operating results of the Trust, Revolving Fund, and Special fund accounts.

#### Statement of Financial Position: (Thousands)

<u>FY 95 Line</u>	<u>FY 95 Balance</u>	<u>Change</u>	<u>FY 95 Restated</u>
1.d.	\$1,896,011	\$31,264,747	\$33,160,758
1.g.	31,264,747	(31,264,747)	0
4.b.(2.a.)	1,117,479	177,884	1,295,363
4.b.(2.c.)	508,223	(177,885)	330,338
5.a.(1)	351,862	(351,862)	0
5.a.(3)	0	783,062	783,062
5.b.(4.)	0	1,352,475	1,352,475
5.b.(5.)	1,910,432	825,682	2,736,114
7.b	190,559,173	(6,999,850)	183,559,323
7.c	(2,421,833)	6,999,850	4,578,017

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#### V. Undelivered Orders:

The Army was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to \$27.9 billion at fiscal year-end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered. Unexpended appropriations in the financial statements were reduced by \$5 billion for unfilled orders where Army has not performed or earned the reimbursement.

#### W. Accounts Payable:

Accounts payable and operating expenses are understated by the accrual amount that should be recorded for contractor services/goods that have been performed/delivered but not yet paid. Since current contractor payment systems were not designed to provide this accrual data for entry to the accounting systems, a reasonable accrual estimate has not been determined. Existing systems/processes are being modified to provide this accrual data for future inclusion to Army's financial statements.

#### Note 2. Fund Balances with Treasury:

This account balance represents the aggregate of all Army appropriations. The schedule below identifies, by fund type, the status of the resources maintained in the Treasury accounts. Amounts that have been restricted by Congress, OMB, Treasury or DoD have been separately identified. Special, Deposit, and Receipt account balances have been consolidated into "Other Fund Types."

(Thousands)	Entity Assets				Total
	Trust Funds	Revol- ving Funds	Appro- priated Funds	Other Fund Types	
Unobligated Balance Available:					
Available	\$403	\$63,613	\$3,101,174	\$89,702	\$3,254,892
Restricted	0	0	1,437,812	0	1,437,812
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	77	0	26,767,296	6,073	26,773,446
Unfunded Contract Authority	0	0	(122,999)	0	(122,999)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance (FY 96)	<u>\$480</u>	<u>\$63,613</u>	<u>\$31,183,283</u>	<u>\$95,775</u>	<u>\$31,343,151</u>
Treasury Balance (FY 95)	<u>\$548</u>	<u>\$159,678</u>	<u>\$29,415,831</u>	<u>\$84,888</u>	<u>\$29,660,945</u>

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#### Note 2. Fund Balances with Treasury: (Con't)

			Non-Entity Assets	
Beginning Balance	\$0	\$0	\$0	\$354,656
Funds Collected	0	0	0	(3,843,690)
Funds Disbursed	0	0	0	3,354,697
Ending Balance (FY 96)	\$0	\$0	\$0	(\$134,337)
Ending Balance (FY 95)	\$0	\$0	\$0	\$354,656

Other Information: Abnormal balance in the non-entity assets "Fund Balance with Treasury" is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.

#### Note 3. Cash, Foreign Currency, and Other Monetary Assets:

(Thousands)

	Entity Assets	Non-Entity Assets
A. Cash	\$6,188	\$143,252
B. Foreign Currency	13,614	
C. Other Monetary Assets		
Total Cash, Foreign Currency and Other Monetary Assets (FY 96)	\$19,802	\$143,252
Total FY 95	\$270,250	\$0

During FY 96, DoD changed guidance relating to the classification of Disbursing Officer's Cash. Disbursing Officer's Cash (with the exception of Imprest Funds that cite an entity appropriation) will now be shown as a Non-Entity asset. Cash balances have been showing decreases from prior years due to the implementation of cash management initiatives. Use of government charge cards for travel related expenses and payments to local vendors account for a large portion of the reduction to cash holding requirements.

#### Note 4. Investments:

The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army and the receipt of interest arising from investment of such donations. The related earnings are allocated to appropriate Army activities to be used in accordance with the directions of the donor. At September 30, 1996, the Army reported \$1 million of investments.

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**Note 5. Accounts Receivable, Net:**

Accounts Receivable include all receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The allowance for uncollectible accounts was based on an analysis of collection experience by fund type for current and noncurrent receivables. During FY 96 the Army wrote off \$23.2 Million in uncollectible receivables, including principal and interest.

(Thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Net Due
<b>A. Entity Receivables:</b>			
Intragovernmental	\$953,735	\$0	953,735
Governmental	359,775	99,531	260,244
<b>B. Non-Entity Receivables:</b>			
Intragovernmental	\$0	\$0	
Governmental	60,091	53,613	6,478
<b>FY 96 Total</b>	<u>\$1,373,601</u>	<u>\$153,144</u>	<u>\$1,220,457</u>
<b>FY 95 Total</b>	<u>\$1,304,671</u>	<u>\$140,248</u>	<u>\$1,164,423</u>

**C. Other Information:** Accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts from former service members, contractor debt and unused travel tickets. Reported bad debt expense is the sum of bad debt write-offs and the current year change in the allowance for doubtful accounts.

**Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets:**  
Army has no activity in this asset category.

**Note 7. Loans and Loan Guarantees, Non-Federal Borrowers:** Not applicable to Army's Financial Statements.

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#### Note 8. Inventory, Net:

Inventory held for current sales is contained in the revolving fund, Conventional Ammunition Working Capital Fund (CAWCF). While no allowance account is maintained, "Inventory, Net" does reflect a FY 1996, CAWCF inventory adjustment. CAWCF was adjusted for unserviceable, condemned and obsolete inventory. The adjustments were based on "purpose codes" that identify the condition of the asset. One of the primary reasons for the adjustment - demilitarization - accounted for \$78 Million. The components of the Army's inventory are shown in the table below.

(Thousands)	Inventory Amount	Allowance For Losses	Inventory, Net
A. Inventory Categories:			
(1) Held for Current Sale	\$1,899,923	\$0	\$1,899,923
(2) Held in Reserve for Future Sale		0	
(3) War Reserve Material	35,769,856		35,769,856
(4) Excess, Obsolete and Unserviceable	0	0	0
(5) Held for Repair	0	0	0
Total FY 96	<u>\$37,669,779</u>	<u>\$0</u>	<u>\$37,669,779</u>
Total FY 95	<u>\$1,896,011</u>	<u>\$0</u>	<u>\$1,896,011</u>

The increase in this account resulted from implementation of DoD guidance which requires "war reserves" to be included in the inventory accounts. This category includes ammunition and missiles that were recorded as stockpile materials in prior CFO financial statements and are not considered to be held for sale during the current period. Additionally, secondary and principal items purchased with procurement dollars are also included. These procurement funded items were previously recorded as "Property, Plant and Equipment."

Note 9. Work in Process: DoD guidance does not provide for work in process for General Fund statements.

Note 10. Operating Materials and Supplies (OM&S), Net: Does not apply to Army General Fund financial statements.

Note 11. Stockpile Materials, Net: Reserved for National Defense Stockpile Transaction Fund. Financial data reported on this line in previous CFO reports has been reclassified as "Inventory, Net." See note 8.

Note 12. Seized Property: Not applicable to Army General Fund financial statements.

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**Note 13. Forfeited Property, Net:** Not applicable to Army General Fund financial statements.

**Note 14. Goods Held Under Price Support and Stabilization Programs, Net:** Not applicable to Army General Fund financial statements.

**Note 15. Property, Plant and Equipment:**

(Thousands)	Acquisition Value	Accumulated Depreciation	Net Book Value (FY 96)	Net Book Value (FY 95)
<b>Classes of Fixed Assets</b>				
A. Land	\$397,290		\$397,290	\$478,196
B. Structures, Facilities, & Leasehold Improvements	27,056,555		27,056,555	26,058,662
C. Military Equipment	80,893,158		80,893,158	112,172,317
D. ADP Software	16,782		16,782	14,967
E. Equipment	0		0	0
F. Assets Under Capital Lease	5,002,027		5,002,027	5,581,252
G. Other	135,018		135,018	135,020
H. Natural Resources	1,737,133		1,737,133	2,468,516
I. Construction-in-Progress	9,629,711		9,629,711	9,034,317
<b>Total</b>	<b>\$124,867,674</b>	<b>N/A</b>	<b>\$124,867,674</b>	<b>\$155,943,247</b>

Depreciation is not recorded for assets financed by general fund appropriations. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. The value reported in Capital Leases is understated by approximately \$1 Billion due to reporting entities within Europe failing to complete reporting requirements for this asset category. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments. Consequently, no capital lease liability has been established.

Application of the new capitalization threshold criteria of \$100 Thousand accounts for the majority of the reduction of "Military Equipment" values as compared to those reported in FY 95. Values reported in FY 95 were based on application of a \$50 Thousand capitalization threshold criteria. A portion of the reduction is attributed to an understatement of "Military Equipment" by approximately \$11.3 Billion. The understatement occurred when incorrect prices

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were used to value specific equipment items managed by the Commodity Commands. The recommended audit adjustment was not fully resolved in time to be included in these financial statements. The reduction of "Natural Resources" is based on revised estimates of the number of "board feet" of lumber existing in the Army's timber reserves.

Real property (land, buildings, and other facilities) is overstated by an amount believed to be immaterial in relation to the total values reported in "Property, Plant and Equipment. Overstatements exist due to inclusion of reported real property assets belonging to non-Army tenant activities. Modifications to the current reporting process are being developed to exclude non-Army balances from the financial statements.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are also required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Balances reported in this asset category include items related to the Defense Business Operations Fund (DBOF). A practical method for breaking out DBOF and non-DBOF GFM/GFP balances has not been developed. However, DBOF amounts included in the GFM/GFP values are believed to be immaterial to the balances reported in the financial statement line "Property, Plant and Equipment.

#### Note 16. Debt: Not applicable

The Army's proportionate share of public debt and related expenses of the federal government are not included in the financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies. The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

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**Note 17. Other Liabilities:**

The schedule below shows those liabilities that will be liquidated with funds that have already been received (Covered by Budgetary Resources) as well as those liabilities that will have to be funded with future appropriations (Not Covered by Budgetary Resources). Additionally, components making up the balances in "Other Liabilities" are further segregated by source and include "Other Federal" (Intragovernmental) and "Non-Federal" (Governmental).

(Thousands)	Non-Current Liability	Current Liability	Total
1. Intragovernmental			
(a) Unearned Revenue, Advances from Gov't Agencies	\$0	\$695,383	\$695,383
(b) Treasury Cash Advances to Disbursing Officers	0	164,273	164,273
(c) Deposit Fund Liabilities	0	(134,337)	(134,337)
Total FY 96	<u>\$0</u>	<u>\$725,319</u>	<u>\$725,319</u>
		Total FY 95	<u>\$1,421,524</u>
2. Governmental			
(a) Unearned Revenue, Advances from Public	\$0	\$206,328	\$206,328
(b) Deferred Credits	0	12,537	12,537
Total	<u>\$0</u>	<u>\$218,865</u>	<u>\$218,865</u>
		Total FY 95	<u>\$190,720</u>

**B. Other Information:** Abnormal balance in the deposit fund liabilities is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.



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#### Note 17. Other Liabilities (Con't):

(Thousands)	Non-Current Liability	Current Liability	Total
<b>C. Other Liabilities Not Covered by Budgetary Resources:</b>			
1. Intragovernmental			
(a) Other	\$0	\$769,119	\$769,119
Total FY 96	<u>\$0</u>	<u>769,119</u>	<u>769,119</u>
		Total FY 95	<u>\$783,062</u>
2. Governmental			
(a) Cancelled Budget Authority	\$0	\$22,437	\$22,437
(b) Accrued Annual Leave, Mil. Unfunded	0	834,861	834,861
(c) Accrued Annual Leave, Civilian, Unfunded	0	651,379	651,379
(d) Other	14,630,199	0	14,630,199
Total FY 96	<u>\$14,630,199</u>	<u>\$1,508,677</u>	<u>\$16,138,876</u>
		Total FY 95	<u>\$2,736,114</u>

D. Other Information: FY 96 marks the first year that liabilities pertaining to environmental cleanup, DoD restructuring/downsizing, radioactive waste cleanup, and actuarially determined personnel benefits have been recognized in the financial statements. Values reported for "Other Federal (Intragovernmental) Liabilities result from recognizing liabilities relating to payments Army will have to make to the Voluntary Separation Incentive Trust Fund for future payments to early takers and for payments owed to the Department of Labor for Worker's Compensation payments made on behalf of Army. Additionally, since this was the first year for recognizing these specific types of liabilities, restatements have been made to the FY 95 financial statements as reflected in Note 1.(U.).

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The following schedule with narrative provides a breakout showing the various liabilities that account for the majority of recorded "Other Non-Federal (Governmental) Liabilities" not covered by budgetary resources:

	(Thousands)
Downsizing -National Guard	177,800
Environmental Restoration	7,945,000
Environmental Restoration - Formerly Used Defense Sites (FUDS)	5,300,000
Environmental Compliance	157,190
Low Level Radioactive Waste Cleanup	283,316
Overseas Restructure/Downsizing -Panama	430,800
Overseas Restructuring/Downsizing Europe	146,400
Workman's Compensation	1,313,935

- **Environmental Compliance/Restoration** - Liabilities for the Army's Environmental Program are primarily comprised of estimates to clean up contamination at Army installations. Other liabilities result from program requirements relating to the Endangered Species Act, Clean Water Act, Resource Conservation & Recovery Act, and the Sikes Act. For FY 96, Army has recorded approximately \$13.4 Billion dollars in this category.

- **Rightsizing/Restructuring** - Liabilities can be recognized or disclosed as a result of rightsizing the military and civilian workforce. These liabilities primarily relate to Congressionally authorized programs designed to provide transition benefits and incentives for military and civilians leaving the workforce. Liabilities can also be recognized or disclosed as a result of anticipated costs relating to the movement of troops, material and equipment in connection with consolidation of missions and the turnover of facilities. During FY 96, Army recorded liabilities approximating \$755 Million for this category.

- **Radio-active Waste** - Liabilities are recognized or disclosed as a result of having to correct the results of improper handling and disposal of low level radioactive waste. During FY 96, Army has recorded liabilities in the financial statements amounting to approximately \$283 Million for this category.

- **Workman's Compensation** - Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. See Note 19.

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#### Note 18. Leases:

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These assets will revert to foreign ownership once the treaties expire.

#### Note 19. Pensions and Other Actuarial Liabilities:

Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). DOL bills Army annually as DOL claims are paid. However, payment on these bills is deferred two years to allow for funding through the budget process. Using actuarial estimates provided by DOL, Army has recorded FECA liabilities for balances billed to Army by DOL, and for estimates of the present value, using a 7.00 percent discount rate, of the long-term payments related to cases on hand at the end of the fiscal year. The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. A corresponding amount has been established as a future funding requirement.

#### Note 20. Net Position:

Net Position is comprised of the following components:

**Unexpended appropriations** - amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the Army for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

**Invested capital** - represents the net investment of the Government in the Army. Includes the initial investment and subsequent appropriations to finance program activities and the net balance of assets and liabilities that have been transferred in and out from/to DoD Components or other U.S. Government Agencies without reimbursement. Also, for General fund appropriations, includes the cumulative net difference between (1) expenses and losses and (2) financing sources to include appropriations, revenues and gains.

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**Cumulative results of operations** - represents the cumulative net difference between (1) expenses and losses and (2) financing sources (includes appropriations, revenues and gains) of the Trust, Revolving, and Special Funds.

**Other** - represents other components of net position not specifically identified above. In prior years, Army financial statements showed balances in this account relating to miscellaneous receipts. Guidance from the Department of the Treasury requires the miscellaneous receipt balances to be excluded from Army's "Net Position" since the receipts are considered withdrawn by Treasury immediately upon collection.

**Future Funding Requirements** - Accrued expenses such as annual and military leave earned but not taken are not funded in the period the expense is recorded. These future funding requirements are recognized as an offset to "Net Position."

Net position is presented in the following table by fund type. "Other" fund types have been included in the "Appropriated Funds" column.

(Thousands)

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended				
Appropriations:				
(1) Unobligated:				
a. Available	\$0	\$403	\$3,190,876	\$3,191,279
b. Unavailable	0	0	1,314,813	1,314,813
(2) Undelivered Orders	0	18	22,955,745	22,955,763
B. Invested Capital	28,188	1,068	168,131,500	168,160,756
C. Cumulative Results of Operations	319,588		(1,987,259)	(1,667,671)
D. Other	0	0	0	0
E. Future Funding Requirements	(0)	(0)	(18,221,930)	(18,221,930)
Total FY 96	<u>\$347,776</u>	<u>\$1,489</u>	<u>\$175,383,745</u>	<u>\$175,733,010</u>
			Total FY 95	<u>\$211,231,585</u>

A breakout of line (E) from the schedule above follows. Also see Note 17 for additional disclosure of the "Other Governmental Liabilities.":

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**FUTURE FUNDING REQUIREMENTS**

(Thousands)

Other Governmental Liabilities	\$14,630,197
Annual Leave	1,486,239
Workman's Comp. and Medical Claims	769,120
Actuarial Liability for Federal Employees -	1,313,935
Future Workman's Comp Benefits	
Canceled Budget Authority (A/P)	22,437
Other	2
<b>Total</b>	<b>\$18,221,930</b>

**Note 21. Taxes:** Not applicable

**Note 22. Other Revenue and Financing Sources:**

	<u>1996</u>	<u>1995</u>
(Thousands)		
A. Other Revenues and Financing Sources:		
(1) Inventory Gains	\$457,944	\$443,976
(2) Investment Gains		
(3) Cost Contributions from Services		
(4) Unfunded Liability Payment from Treasury		
(5) Miscellaneous Reimbursements	471,448	467,395
(6) Other Miscellaneous Gains	212	807
(7) Benefit Program Revenue		
(8) Gain on Disposition of Assets		
(9) Donations		
<b>Total</b>	<b>\$929,604</b>	<b>\$912,178</b>

**B. Other Information:**

Other revenues and financing sources include miscellaneous receipts, donated revenue and inventory and other gains. Miscellaneous receipts, which are unavailable for agency use and are returned to Treasury, consist of license fees, fines, penalties and general fund receipts.

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**Note 23. Program or Operating Expenses:**

(Thousands)	1996	1995
<b>A. Operating Expenses by Object Classification:</b>		
(1) Personal Services and Benefits	\$31,612,018	\$32,130,548
(2) Travel and Transportation	2,947,507	1,576,052
(3) Rental, Communication and Utilities	1,300,032	1,300,887
(4) Printing and Reproduction	86,056	50,472
(5) Contractual Services	15,518,590	13,661,243
(6) Supplies and Materials	4,442,067	4,001,708
(7) Equipment not Capitalized	476,632	485,688
(8) Grants, Subsidies and Contributions	123,212	90,692
(9) Insurance Claims and Indemnities	69,361	447
(10) Other	1,213,528	1,178,241
(11) Total Expenses by Object Class	<u>\$57,789,003</u>	<u>\$54,475,978</u>
 <b>B. Operating Expenses by Program:</b>		
(1) Revolving Fund	\$184,226	\$205,308
(2) General Fund	57,604,657	54,270,400
(3) Trust Fund	120	270
(4) Unallocated Expense	0	0
Totals	<u>\$57,789,003</u>	<u>\$54,475,978</u>

**Note 24. Cost of Goods Sold:**

	1996	1995
Public	\$627,185	\$495,222
Intragovernmental	5,552,692	5,466,517
Cost of Services Sold	<u>\$6,179,877</u>	<u>\$5,961,739</u>

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 25. Other Expenses:

Inventory Loss/Adjustments from the CAWCF revolving fund accounted for the majority of this Statement of Operations (and Changes in Net Position) line item. Primary cause for the increase over the FY 95 expense line value was attributed to disposal of excess and obsolete inventory.

(Thousands)	1996	1995
A. Other Expenses:		
(1) Inventory Losses or Adjustments	\$733,513	\$355,257
(2) Other Miscellaneous Losses	1,623	2,523
Total	<u>\$735,136</u>	<u>\$357,780</u>

Note 26. Extraordinary Items: Not applicable to Army's FY 96 financial statements.

Note 27. Prior Period Adjustments: Statement of Federal Financial Accounting Standard Number Six "Property, Plant, and Equipment," requires that the offsetting charges against liabilities recognized for environmental cleanup costs are to be recorded as a prior period adjustment. Accordingly, Army has recorded prior period adjustments of \$13.7 Billion in FY 96 for estimated liabilities relating to cleanup costs.

#### Note 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	1996	1995
(1) Transfers-In	(2,811,700)	(325,650,346)
(2) Unexpended Appropriations	(504,258)	(3,225,403)
(3) Donations Received	0	0
(4) Other Increases	773,655	33,123,545
(5) Total Increases	<u>(2,542,303)</u>	<u>(295,752,204)</u>
B. Decreases:	1996	1995
(1) Transfers-Out:	(12,586,930)	311,647,204
(2) Donations	0	0
(3) Other Decreases	(4,275,253)	(29,466,544)
(4) Total Decreases	<u>(16,862,183)</u>	<u>282,180,660</u>
C. Net Non-Operating Changes (Transfers):	<u>(19,404,486)</u>	<u>(13,571,544)</u>

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 29. Intrafund Eliminations:

The following schedules show the values of the transactions that were required to be eliminated from the Statement of Financial Position and Statement of Operations (and Changes in Net Position) since they represented activity between Army appropriations or activity with other DoD entities.

**Schedule A. Sales within the General Fund activity by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections.** It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity.

(Thousands)

Selling Activity:	Column A	Column B	Column C	Column D
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Unearned Revenue	\$0	\$0	\$818,369	\$0
Total	<u>\$730,832</u>	<u>\$5,271,007</u>	<u>\$818,369</u>	<u>\$5,090,111</u>
Customer Activity:	Column A	Column B	Column C	Column D
	Accounts Payable	Expenses	Advances	Disbursements
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Advances	\$0	\$0	\$818,369	\$0
Total	<u>\$730,832</u>	<u>\$5,271,007</u>	<u>\$818,369</u>	<u>\$5,090,111</u>



## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 29. Intrafund Eliminations (Con't):

Schedule B. Not applicable

Schedule C. Not applicable

Schedule D. Sales or services between the Army and other DoD reporting entities by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity.

(Thousands)

Selling Activity:	Column A	Column B	Column C	Column D
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Department of the Army	\$475,326	\$4,244,715	N/A	\$4,226,035
Unearned Revenue	\$0	\$0	\$605,946	\$0
Total	\$475,326	\$4,244,715	\$605,946	\$4,226,035
Customer Activity:	Column A	Column B	Column C	Column D
	Accounts Payable	Expenses	Advances	Disbursements
Department of the Army	\$0	\$0	N/A	\$0
Department of the Navy	\$55,537	\$520,681	N/A	\$504,167
Department of the Air Force	\$100,374	\$775,029	N/A	\$749,661
Defense Business Operations Fund	\$0	\$0	N/A	\$0
DoD Military Retirement Trust Fund	\$0	\$0	N/A	\$0
National Defense Stockpile	\$0	\$0	N/A	\$0
U.S. Army Corps of Engineers	\$0	\$0	N/A	\$0
Defense Security Assistance Agency	\$0	\$0	N/A	\$0
Other Defense Organizations	\$319,415	\$2,949,005	N/A	\$2,972,207
Advances	\$0	\$0	\$605,946	\$0
Total	\$475,326	\$4,244,715	\$605,946	\$4,226,035

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

**Schedule E.** The following schedule shows the values of sales and services between the Department of Army and other U.S. Government entities. This information is needed by the Department of Treasury to prepare U.S. Government-wide consolidated financial statements. It is presumed that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing entity.

(Thousands)

Selling Activity:	Column A	Column B	Column C	Column D
	<u>Accts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Department of the Army	\$113,618	\$218,144	\$16,716	\$169,394
Customer Activity:	Column A	Column B	Column C	Column D
	<u>Accts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Dept of Commerce	\$1,899	\$270	\$0	\$410
Dept of Interior	655	1,386	0	1,626
Dept of Justice	9,283	18,291	0	15,485
Dept of Labor	9	16	0	26
Dept of Energy	450	2,142	0	2,036
Dept of State	1,961	4,515	0	19,072
Dept of Treasury	2,568	12,001	0	12,364
Veterans Administration	1,509	4,473	0	2,503
Republic of Panama	43	213	0	185
Federal Emergency Mgmt	4,451	927	0	286
General Services Admin	41,414	64,924	0	31,740
Environmental Protection	862	1,692	0	1,380
Dept of Transportation	8,599	14,113	0	10,574
Dept of Health Services	4,640	6,732	0	3,438
National Aeronautics	14,289	37,931	0	30,189
Dept of Housing	6	4	0	7
Legislative Branch	0	15	0	15
Office of the President	402	9,987	0	6,597
Dept of Agriculture	457	941	0	1,163
Energy Research	107	12	0	519
Selective Service System	4,566	6,188	0	3,634
Nuclear Regulatory Comm	124	474	0	386
All other Federal agencies	15,324	30,897	0	25,759
Advances	0	0	16,716	0
Total	\$113,618	\$218,144	\$16,716	\$169,394

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

#### Note 30 Contingencies:

The Army canceled all merged year and expiring account appropriations. The Army may still be responsible for an estimated \$417.5 million in obligations that relate to the canceled appropriations. The Army is subject to various asserted claims for over \$100 million. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. As of September 30, 1996 Army has approximately \$3.3 Billion in claims that are considered to be only remotely possible of resulting in a loss. Additionally, Army is currently in the process of litigating cases having a remote chance of resulting in cumulative estimated losses of \$910 Million.

#### Note 31. Other Disclosures:

##### **A. Reportable Anti-Deficiency Violations:**

The Army had 16 potential Antideficiency Act (ADA) violations under investigation as of 30 September, 1996. Of the completed cases during FY 96, only one was determined to be a violation of the Act. The single case totaling \$100,269,900 resulted when restrictions of section 101 of the Military Construction Act of 1994 (Public Law 103-110) were violated. The restriction requiring prior approval by the Secretary of Defense for the expenditure of military construction funds for certain cost-plus-fixed-fees contracts has since been removed from the FY 96 Military Construction Appropriations Act.

##### **B. Problem Disbursements:**

The Army transacts a significant portion of its business utilizing a centralized clearance system at DFAS-IN which allows an installation to make disbursements citing another installation's funds. The transactions include intra-service transactions by others, interfund billings and cross-disbursements by others. Problem disbursements represent disbursements of Army funds that have been reported by a Treasury Disbursing Station Symbol Number (DSSN) to Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursement.

Problem disbursements represent a significant financial management concern because: (1) the accuracy of accounting reports is affected; (2) available funding picture is distorted; and (3) the research and resolution process can be very labor intensive. Initiatives such as prevalidation of payments, are well underway to reduce or eliminate problem disbursements. In the case of prevalidation efforts, entitlement personnel and accountants are now required to jointly ensure that an obligation of funds sufficient to cover the amount of the proposed disbursement has been recorded in the accounting records. This validation must be done for all payments exceeding a specified threshold. Eventually, all payments will be prevalidated prior to the disbursement of funds.

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

### ANNEX B

The following table shows the unmatched transactions and Negative Unliquidated Obligations (NULO's) as of September 30, 1996. FY 95 values for unmatched transactions can't be used for comparison purposes due to changes in reporting requirements and problem disbursement definitions implemented during FY 96. However, while FY 95 NULO's shown below do include Defense Business Operations Fund transactions, comparisons can still be made between both years. FY 96 DBOF transactions were equal to 7% of the total NULO's reported by Army. Using the same relationship found in the FY 96 reported values of NULO's (Army DBOF to total Army NULO's), the FY 95 NULO figure for Army non-DBOF transactions could be stated as 93% of \$147.7 million, or approximately \$137.4 million. FY 96 NULO's declined by 34% when compared to the computed non-DBOF FY 95 NULO balance.

(\$'s in Thousands )

	<u>FY 96</u>	<u>FY 95</u>
Unmatched	118,910	N/A
NULO's	90,557	147,700

#### C. Other Entity Assets:

This account is made up of military property in the hands of contractors. This estimate is based on the data reported by contractors for military peculiar property that may include both end items and integral components of military weapons system. This value was reported as \$6.8 Billion in the FY 94 CFO Statements but was not available for inclusion in the FY 95 CFO Statements.

## **Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"**

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### **ANNEX C**

#### **SUPPORTING AUDIT REPORTS**

1. Proposed Adjustments and Comments Regarding Army's FY 96 Annual Financial Report (AA 97-144)
2. Report on Internal Controls and Compliance With Laws and Regulations (AA 97-145)
3. Financial Reporting of Wholesale Asset Balances (AA 97-146)
4. Financial Reporting of Asset Values (AA 97-147)
5. Financial Reporting of Government-Furnished Property (AA 97-148)
6. Financial Reporting of Real Property (AA 97-149)
7. Financial Reporting of Retail Equipment (AA 97-150)
8. Financial Reporting of National Guard Items (AA 97-151)
9. Financial Reporting of Progress Payments (AA 97-152)
10. Financial Reporting of Accounts Payable (AA 97-153)
11. Financial Reporting of Selected Liabilities (AA 97-154)
12. Audit of the Compilation of the Army's FY 96 Financial Statements at the Defense Finance and Accounting Service - Indianapolis Center (Inspector General, DOD, Project #6FI-2023)

**Appendix B. AAA Report, "Army's Principal Financial Statements for  
Fiscal Years 1996 and 1995"**

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**ANNEX D**

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Assistant Secretary of the Army (Research, Development and Acquisition)  
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U.S. Army Tank-automotive and Armaments Command  
U.S. Army Logistics Evaluation Agency  
U.S. Army War Reserves Support Command  
XVIII Airborne Corps and Fort Bragg  
I Corps and Fort Lewis  
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6<sup>th</sup> Military Police Group, U.S. Army Criminal Investigation Command  
Executive Director, U.S. Army Materiel Command Logistics Support  
Activity

## Appendix B. AAA Report, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995"

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### ANNEX D

#### Directors

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- U.S. Army Research Laboratory
- U.S. Army Center for Public Works
- Commandant, U.S. Army Logistics Management College
- Director, Center for Army Lessons Learned

#### Inspector General, Department of Defense

#### Directors

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- Defense Finance and Accounting Service-Indianapolis Center
- Defense Finance and Accounting Service-Columbus Center
- Defense Intelligence Agency
- Defense Logistics Agency
- Defense Logistics Studies Information Exchange

#### Auditors General

- Air Force Audit Agency
- Naval Audit Service

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## Appendix C. Audit Process

**Audit Work Performed.** To fulfill our responsibilities under the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, for determining the accuracy and completeness of the independent audit conducted by the AAA, we reviewed the AAA audit approach and planning, and monitored audit progress at key points.

**Reviewing AAA Audit Approach and Planning.** We used the President's Council on Integrity and Efficiency "Federal Financial Statement Audit Manual" as the criterion for reviewing the AAA audit approach and planning. Specifically, we reviewed the notification and engagement letters, opening conference documentation, strategy formulation, entity profile, general risk analysis, account risk analysis, audit programs, and cycle memorandums.

We reviewed additional documentation as deemed necessary to accomplish the audit objective. We also participated in audit planning workshops at AAA.

**Monitoring Audit Progress at Key Points.** Through the IG, DoD, Integrated Audit Process Team and the Executive Steering Committee, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD consolidated financial statements, to include the supporting financial statements of major DoD Components. Audit initiatives for monitoring the progress of the audit at key points also involved reviewing and commenting on related draft reports issued by AAA, including the audit opinion report and the report on the evaluation of internal controls and compliance with laws and regulations.

In addition to the oversight procedures, we performed other procedures deemed necessary to determine the fairness and accuracy of the AAA audit approach and conclusions.

**Audit Period and Standards.** We performed this financial statement audit from May 17, 1996, through February 21, 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

**Contacts During the Audit.** We visited or contacted individuals and organizations in the DoD audit community. Further details are available on request.



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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

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Committee on Government Reform and Oversight  
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Committee on Government Reform and Oversight  
House Committee on National Security

## **Audit Team Members**

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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## INTERNET DOCUMENT INFORMATION FORM

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